

1
2 **CONSUMERS ILLINOIS WATER COMPANY**

3 **DIRECT TESTIMONY**

4 **OF**

5 **MICHAEL D. BRATETIC**

6 **DOCKET 03-0069**
7

8 **WITNESS IDENTIFICATION AND BACKGROUND**

9 **Q. Please state your name and business address.**

10 A. My name is Michael D. Bratetic. My business address is 1000 S. Schuyler Avenue,
11 Kankakee, Illinois 60901.

12 **Q. Mr. Bratetic, by whom are you employed?**

13 A. Consumers Illinois Water Company (“CIWC” or “Company”).

14 **Q. What is your position with CIWC?**

15 A. I am the Vice President-Finance of CIWC.

16 **Q. Please summarize your educational, professional and business background.**

17 A. I have a Bachelor of Science degree in Business Administration from Robert Morris
18 University. I have over 26 years experience in financial, managerial, cost and general
19 accounting in the service and manufacturing industries. During the last 15 years, I have
20 held positions of increasing responsibility in the water utility industry. I was Controller
21 for Consumers New Jersey Water Company for 10 years before transferring to the parent
22 company, Consumers Water Company (“CWC”), as Financial Systems Developer. With
23 the merger of CWC and Philadelphia Suburban Corporation (“PSC”), I was transferred

to PSC as Financial Systems Liaison. I have been employed by CIWC since _____, 2002. Prior to working in the water industry, I held various financial and accounting positions with Long John Silver's Restaurants, Park Broadcasting, Inc. and Fisher Scientific Corporate Offices. I am a member of the Institute of Management Accountants and have attended various water utility courses , such as the NARUC Utility Rate School.

Q. What are your duties as Vice President - Finance of CIWC?

A. I am responsible for the financial and accounting operations of CIWC which serves approximately 53,782 water customers and 10,603 wastewater customers in the State of Illinois.

PURPOSE OF TESTIMONY

Q. Mr. Bratetic, what is the purpose of your testimony in this matter?

A. The purpose of my testimony is to support the journal entries proposed by CIWC in this proceeding. In addition, I will support the acquisition adjustment treatment requested by the Company.

PROPOSED JOURNAL ENTRIES

Q. Please further discuss the proposed journal entries.

A. The proposed journal entries were attached to the Petition as Attachment F. I have also attached the entries hereto as Schedule 1. The entries relate to CIWC's acquisition of the water system of the Village of Indianola.

Q. How has the original cost of the acquired plant been recorded?

45 A. In accordance with Accounting Instruction 21 of the Uniform System of Accounts for
46 Class A Water Utilities (1996) (“USOA”), the original cost of the acquired plant has been
47 credited to Account 104. The proposed journal entries are submitted to clear from
48 Account 104 the amounts involved. The proposed journal entries are consistent with the
49 requirements of the USOA.

50 **Q. Do the proposed entries include an acquisition adjustment?**

51 A. Yes. As indicated on Schedule 1, the journal entries include recording in Account 114
52 credit acquisition adjustments for the water facilities. CIWC proposes to amortize the
53 credit adjustment below-the-line in Account 421 over a ten year period. This proposal is
54 consistent with the approach authorized in several past orders in which the Commission
55 has approved amortization of credit acquisition adjustments in Account 421 over a period
56 of years. See, Consumers Illinois Water Company and Village Woods, Docket 02-0539
57 (November 7, 2002) (10-year below-the-line amortization of credit acquisition
58 adjustment approved); Consumers Illinois Water Company and Woodhaven Utilities
59 Corp., Docket 86-0554 (April 1, 1987) (10-year below-the-line amortization of credit
60 acquisition adjustment approved); Consumers Illinois Water Company, Docket 98-0343
61 (September 25, 1998) (amortization of credit acquisition adjustment in Account 421 over
62 useful life of facilities approved); Consumers Illinois Water Company, Dockets 00-0784
63 and 00-0785 (consolidated) (May 23, 2001) (amortization of credit adjustment in
64 Account 421 over 20 years approved).

67

68

69

70 **Q. Describe the state of the Village of Indianola's accounting records and why an**
71 **original cost study was necessary?**

72 A. An original cost study was performed by Guastella Associates, Inc. at the request of the
73 Company. Mr. Guastella's testimony discusses the study, which was necessary due to
74 the lack of reliable accounting records at the Village of Indianola. If the Village had been
75 a regulated public utility company, records of the original cost of its property may have
76 been better maintained. If original cost records do not exist, the original cost can be
77 estimated. The Company estimated the original cost of the Village of Indianola property
78 based on the original cost study prepared by Guastella Associates, Inc.

79 **Q. How would the accounting entries and especially any acquisition adjustment affect**
80 **rate base?**

81

82

83 A. The following schedule illustrates the affect of the acquisition of Village of Indianola on
84 Vermillion's ("VM") rate base. At the time of acquisition, VM's rate base would increase
85 by the acquisition purchase price of \$10,000. Over a 10 year period, VM's rate base
86 would increase \$501,870, mainly due to system improvements \$432,500; Accumulated
87 Depreciation \$166,085 and Amortization of the Utility Plant Acquisition Adjustment
88 \$208,422.

	Vermillion at 12/31/02	2003 Indianola Acquisition	Vermillion Post Acq.	Indianola 10 Year Pro Forma	Vermillion Post 10 Yr.
Gross Utility Plant in Service	57,083,137	336,230	57,419,367	432,500	57,851,867
Accumulated Depreciation	(15,351,698)	(117,808)	(15,469,506)	(166,085)	(15,635,591)
Non AFUDC CWIP	491,508		491,508		491,508
Utility Plant Acquisition Adjustments	-	(208,422)	(208,422)		(208,422)
Accumulated Amortization of UPAA	-			208,422	208,422
Net Plant	<u>42,222,947</u>	<u>10,000</u>	<u>42,232,947</u>	<u>474,837</u>	<u>42,707,784</u>
Additions:					
Deferred Tank Painting	505,110		505,110		505,110
Materials and Supplies	355,875		355,875		355,875
Cash Working Capital	483,796		483,796	27,033	510,829
Accum. Amort. Of CIAC	1,170,998		1,170,998		1,170,998
Corporate Allocation	(91,281)		(91,281)		(91,281)
			-		-
Deductions:					
FAS 87 Pension Reserve	27,900		27,900		27,900
Customer Advances	(1,019,654)		(1,019,654)		(1,019,654)
CIAC	(3,321,033)		(3,321,033)		(3,321,033)
Deferred Federal Taxes	(2,593,385)		(2,593,385)		(2,593,385)
Deferred State Taxes	(428,691)		(428,691)		(428,691)
Total Adds & Deducts	<u>(4,910,365)</u>		<u>(4,910,365)</u>	<u>27,033</u>	<u>(4,883,332)</u>
Original Cost Rate Base	<u>37,312,582</u>		<u>37,322,582</u>	<u>501,870</u>	<u>37,824,452</u>
Operating Income	3,165,875		3,165,875	56,717	3,222,592
RORB	8.48%		8.48%		8.52%

Q. Does this conclude your Direct Testimony?

A. Yes, it does.